Transcription

Dometic Q2 2023

18 July 2023

Juan Vargues: Hello. Good morning, everybody, and welcome to the presentation. The quarterly report for the second quarter of 2023. I suggest that without any delays, we start immediately with the highlights for the quarter. We are proud to deliver another quarter showing solid earnings and record high cash flow, especially considering the current market conditions. We still see inflation and interest rates having a negative impact on consumer demand. We see the RV industry production in the US still at very, very low levels.

Juan Vargues: Up to May, the industry is down 50 percent. This is not the number for Dometic but for the industry. We see as well that the inventory levels on the service and the important service and after-market for us are still down, but we see clear improvements in comparison to what we saw in Q1 or Q4 last year. In regards to performance, 10 percent down in organic growth driven primarily by the Americas, down 35 percent. At the same time, as we see, OEM outside America still showing nice growth for us. Service and after-market, 10 percent down, but again, clear improvements versus Q1, where we were showing 19 percent down, or Q4 last year, where we were showing 22 percent down. EBITA margin before items affecting comparability, 14.1. On the decline, it is driven primarily by the Americas.

Juan Vargues: We see improvements in the EMEA segment even if we are still below last year. We continue to have solid margins in APAC and Marine, and we are very happy to see the strong improvements in the segment Global driven primarily by Igloo. Of course, we feel very, very proud of delivering a very strong operating cash flow. Driven by the reduction of our inventories. If we move on to the financials, we ended up at 8.3 billion in sales or two percent down in total growth with a 10 percent drop in organic. Supported by an increase of growth of eight percent due to currencies. Every day, almost 1.2 billion or an EBITA margin of 14.1 compared with 15.7 last year.

Juan Vargues: We also reached an operating cash flow of 2.3 billion, which is obviously a heavy improvement in comparison to the delivery last year. With that, leverage remained at the same level as in Q1 2023 at 3.2, despite the fact that we had the dividend payout. We had runouts and a negative effect impact on the numbers. Finally, EPS ended up at one krone and 67 ore.

Juan Vargues: If we move over to the day-to-day numbers, we ended up at 15.6 billion in the same way, at two percent total negative growth with an 11 percent drop in organic growth and eight percent in positive effects. EBITA slightly over 2 billion kroner or an EBITDA margin of 13 percent compared to 15.3 last year. Even in this case, the improvement in operating cash flow delivered almost 2.6 billion in comparison to slightly over 300 million last year. EPS ended up at two kroner and 72 ore.

Juan Vargues: If we look at the sales growth, I will not go through all the numbers, but perhaps worth to mention that we are showing, again 10 percent organic growth drop versus 13 percent down in Q1 and 11 percent in Q4 last year. If we move over to sales by application area, no major changes in this case. Perhaps the one to mention is climate, which stands today at 28 percent and is the one that is mostly affected by the RV situation in the US. Since the number of air conditioners is higher in the US than anywhere else. That market is obviously the largest market in the world. Other than that, very, very stable.

Juan Vargues: If we move over to sales channels. It's worth mentioning here that the OEM has moved from 61 percent in 2017 to 43 percent in 2023. At the same time as the RVOEM has moved from 49 percent in 2017 to 22 percent in 2023. As you can see, distribution is increasing its share simply because the RV business is dropping more. Looking at the OEM, which is something that is not always that we are elaborating on, you can see that the RVOEM side stands today for 22 percent. It has been growing since 2017, clearly, but what is even more important is that the CPV business has doubled its size in the last five years. The marine business has multiplied its size by four in the last five years, both organically and acquisitively.

Juan Vargues: Looking at the service and aftermarket and what happened during the last couple of years. You can see the pandemic effects after the first half, the very weak first half of 2020 kicking in when the market bounced back in the second half of 2020, continued to grow dramatically in 2021, and also in Q1 2022. Then the bullwhip effect, which we have been commenting on a couple of times, started to kick in Q2 last year. What's important here to mention is that on one side, we see the service and aftermarket gradually improving. We were showing in the quarter -10 percent in comparison to the -22 percent in Q4, or -19 in Q1 this year. The other factor which is important is that now we have Marine being positive and we have also APAC being positive while we need to recover the Americas and EMEA.

Juan Vargues: We see, again, that the inventory build-up that took place in the last 18 months is starting to be consumed all over the world. Looking at EBITA, we ended up at 14.1, driven very much by the Americas. We see that the EMEA is improving quarter by quarter now, but still below last year's. The reason for that on one side is the sales mix, where we are still growing in OEM while we have still quite negative growth in service and aftermarket, but also the extra logistic costs that we have impacted in a couple of quarters now. On top of that, the inefficiencies caused by the factory move from Germany to Hungary. Then, happy to see that Igloo continues to improve its margins.

Juan Vargues: If we move over to the segments. The Americas total negative growth of 27 percent with organic growth of 35 percent, down very much due to the RV situation. We see the service and aftermarket is below last year's numbers but much better than we have seen during the last quarters. Again, coming up gradually as we have commented. EBITA, -26 million, or a negative EBITA margin of 1.8 percent, which of course is not easy to compensate for when the market is dropping at the pace that it is dropping. What we are doing about that is, obviously, to continue to rightsize the business looking for additional savings wherever we can at the same time, as we continue also to drive price management and prioritizing margin in regards to volume.

Juan Vargues: EMEA, the positive growth, totally speaking, is five percent, but organic negative growth of four percent with good organic growth OEM both on the RV side and also the CPV side. In the same way as the Americas, service and aftermarket are still below last year's numbers, but a clear improving trend. EBITA ended at 312 million kroner or an EBITA margin of 12.8, which is still below last year's, but we see also a major improvement in comparison to what we saw during the last quarters. Even in this case, the mix is having a negative impact since we are still quite negative on the service and aftermarket. We see as well the logistic cost is starting to point down in comparison to what we have seen so far.

Juan Vargues: We are expecting to see inefficiencies due to the factory move to Hungary in the coming months, but it will gradually improve. The reason for that is, obviously, that when you are moving a factory for a certain period of time, you are carrying double the money in order to secure the quality and the delivery performance. Siegen, the factory that we had in Germany has been totally closed, which means that all manufacturing refrigeration in Europe today is taking place in Hungary. In the same way, as in the Americas, we continue to look for improvements, improving efficiency, reducing our costs, and also driving price management.

Juan Vargues: APAC showed a negative organic growth of three percent with double-digit organic growth on the OEM side. Service and aftermarket are slightly up in comparison to the same period last year, while distribution is still having a negative impact on our numbers. Solid EBITA margin, 130 million or 25.8 percent. Even here, obviously, the growth on the OEM side, at the same time as we have negative distribution, is having a negative impact on our margins in the quarter. Happy to see that the acquisitions are still keeping a very, very good level of performance.

Juan Vargues: Moving over to marine, total growth of 10 percent with organic growth of three percent. We showed organic growth on the OEM at the same time as service and aftermarket were slightly up. For the first time above the same level that we had last year. An EBITA of 495 million or 25.8 percent of the EBITA margin. Even here impacted by a negative sales mix and considering as well that Q2 2022 was an all-time high quarter for us.

Juan Vargues: On the strategic side, we see that hydraulic and electric devices and steering systems continue to grow. We're looking at the share as two percentage points up versus the same situation last year. The technology transformation that we have been talking about continues in 2023. Looking at global, total growth of four percent, organic growth or negative organic growth of five percent. We'll decline in other global verticals. Residential was down but compared to a very, very strong first half of 2022. Hospitality continued to show strong numbers. Igloo, for the first time, showed a low single-digit decline. EBITA, very positive, 267 million with an EBITA margin of 13.1 percent. Even if we need to add, in this case, that we had a positive one-time effect of 33 million due to tariffs.

Juan Vargues: We see that Igloo's margin is improving now quarter by quarter, as we have been commenting in the past. Hospitality still doing very, very well. It is important to note that this is something new. We are forming as we speak, a global mobile cooling organization where we are going to combine on one side the Igloo business with the existing legacy Dometic business. We have been working on this now for a number of months and is taking place. Our intention is to start reporting on the first quarter of next year, which means that we will restate the numbers and we'll come back to all of you with more information.

Juan Vargues: At the same time, the collaboration between the total mobile cooling business that we have been driving in the last 18 months is starting to show in the number of product launches that we are planning for. We will see in a couple of slides what we are talking about. We have also commented before that we used to have an organization under the Dometic brand called Mobicool in Europe. That organization has been transferred now to Igloo, which means that the Igloo EMEA organization is, from now on, up and running. We participated in the big show in Germany in ISPO as Igloo and also introduced both the traditional Igloo products, but also the new products that are developed in connection with Dometic.

Juan Vargues: What we mean by that is we are launching, for the first time, the first Igloo compressor cooler with Dometic inside. That means Dometic active technology together with an Igloo product design. This product is going to be launched in Australia in the coming month of October. Then the upcoming launches in the US and EMEA region in January 2024. We will take, obviously, the opportunity of the high season in the Pacific area with the new products. The same is valid with the thermoelectric coolers under the Igloo brand, even in this case with Dometic technology inside. This product range will also be launched in Q1 2024. Again, according to our original plans of really combining the strengths of Igloo with the strength of Dometic to build up global businesses.

Juan Vargues: Another one that we feel very proud of and that we announced about one year ago when we launched the first series in the Americas is the new generation of air conditioners which are bringing a fantastic performance. I won't mention all the numbers, but we are increasing cooling capacity by 48 percent. At the same time as we are reducing energy consumption by 38 percent or the CO_2 impact by 70 percent. We are offering our consumers many more features than we had in the past. At the same time as we are reducing the complexity by 50 percent. This implies 50 percent fewer components, which is a major achievement.

Juan Vargues: This is a global launch. We started in the US. We have continued now during the first half of 2023 in EMEA and APAC and will continue in the upcoming 18 months, launching new versions.

Juan Vargues: Looking at cost reductions. As you all know, we have two programs, one that was launched in October 2019. The other one was launched in 2022. Expected savings combined of 600 million and an expected total cost of 950 million. We booked 31 million additionally in the quarter, which means that the total cost that we have taken so far is 867 million. The run rate that we have on savings now is 425, which means that we have another 175 million left to go.

Juan Vargues: Then finally, sustainability is another very important area for us where we want to drive the market in our industries. I'm happy to report that we are improving in three out of four KPIs. The only one where we are slightly negative in comparison to last year is injuries and is temporary. We know that we are working on many different activities, and we have seen fantastic results now. We are confident that we will see this improvement also in the coming months. Other than that, we are showing, again, improvements in all the areas.

Juan Vargues: With that said, Stefan, could you please get us deeper into the financials?

Stefan Fristedt: Absolutely. Thank you, Juan. Starting with our Q2 EBITA development, where we have the bridge from Q2 2022 to Q2 2023. The point here, we obviously are seeing lower net sales driven by segment Americas. We have, as you know, the logistics cost and manufacturing inefficiencies in EMEA where we will see and we are seeing a gradual improvement here. That will continue when we're getting further into the year. SG&A, expenses are slightly up, excluding FX. We are doing investments in sales and marketing in strategic structural growth areas. We also continue to invest in R&D. Then on the other hand, we have cost reductions which are contributing positively to the programs that we are running.

Stefan Fristedt: Juan also mentioned that we have a one-time positive effect of 33 million in the segment Global related to a tariff refund that we got in the quarter. Then we have a positive impact on EBITA, mainly translation effects. There are no effects from acquisitions in this quarter.

Stefan Fristedt: Moving over to cash flow for the period. As already mentioned, the operating cash flow of almost 2.3 billion, it's a record high. We have never had such a strong operating cash flow in one single quarter. Obviously, a significant improvement versus the same period last year. It's very much driven by the release of working capital and driven by the reduction of inventory. If we look at the effects of acquisitions, we have paid 480 million in earnouts related to the previous year's acquisitions. It's not related to Igloo, which means that the majority of the earnout payments have now been taken care of. We are going to see a little bit above 100 million still to come during this year, mainly in Q3.

Stefan Fristedt: Net cash flow from financing, 548 million. We have been paying dividends of 450 million. We have paid the net of paid and received interest of 258 million. We also have the private placement that we did in May of 750 million running with a majority of 3.25 years. Then we have what we did already in the first quarter, Svensk Exportkredit, and a slight extension of our bank loan of $54 million.

Stefan Fristedt: Moving on. Here you can see it illustrated the record high operating cash flow of 2.3 billion. This also means that we have a year-over-year improvement for the last four quarters. Taking a look at the different components of the working capital, we see a reduction of accounts payable, which is really driven by a mixed effect. We are buying less in China where we have the longest payment terms. Accounts receivables are developing in a very stable way so ending in 46 days. Then on inventories, we can start to see that the DIO curve is starting to point down, 153 days, which is, of course, according to expectation.

Stefan Fristedt: If we then look at total working capital, it's making up 34 percent of net sales, which is obviously still extremely high. We have to be aware of that when calculating this KPI. We are using a 12-month average working capital in relation to the last 12 months of net sales. If we would use where we ended at the end of June, we are starting to approach 30 percent, and that reduction will continue.

Stefan Fristedt: As you know, our target, or at least our first target is to get working capital down to around 20 percent net sales.

Stefan Fristedt: Let's move over. If we look at capex and research and development spending, capex is pretty flat to last year and is hovering around 1.3 to 1.4 percent of net sales. As I mentioned before, on the R&D side, we are now in this quarter spending 2, percent of the net sales and we are increasing the spending, which is in line with our ambition here to support our strategy execution and areas. Examples of areas where we are investing are mobile cooling and marine.

Stefan Fristedt: Moving over to our net debt to EBITDA leverage. We have been remaining at 3.2 in the quarter, the same level as in Q1. If you look at the bottom, you have the bridge and you can see that the slightly reduced 12-month moving EBITDA is increasing leverage with 0.1. Cash flow, improving it with 0.3. Then we have the weakening Swedish krona leaning in the other direction with 0.3. Without the weakening Swedish krona, we would have been on a level below the three times. As we have been talking to you before about, what is impacting the leverage going forward is, of course, the EBITDA development, continued inventory reduction activities, which means further strong operating cash flow, capex, and obviously, FX development.

Stefan Fristedt: If we move over to our debt maturity profile, as Juan has already mentioned, the plan is to use the cash at hand to repay the €300 million bond maturing in September 2023. I want to underline that this doesn't change anything from the fact that the euro bond market remains an important long-term funding source for Dometic. If we just summarize the key financing activities performed in 2023, we have the private placement done now in May of 750 million with 3.25 years of maturity. We have a loan from Svensk Exportkredit of 44 million USD maturing in 2026, and then we have a slight increase of the bank facility of $10 million, where we also have extended the maturity to 2026. Then, on the last bullet point here, we have completely renegotiated the bank facility, which means that we also have a one-plus-one-year option for the 2026 maturity. With that, Juan, I'm handing it back to you for summarizing.

Juan Vargues: Thank you, Stefan. To summarize, we are happy to present solid earnings and a record-high operating cash flow. We keep transforming the company into a more diversified and resilient company moving forward. It's obviously very difficult to predict how consumer sentiment is going to change. That will very much depend on inflation rates and interest rates. Our best expectations at this moment are really that service and aftermarket will continue to recover as inventories are consumed by our customers and our customers' customers. We also see a gradual deterioration in the OEM business, with two main exceptions the RV Americas, where we are expecting to see stability at the end of the year, and the CPV, which is in a totally different phase, where the degree of penetration of our products is increasing globally. We don't see any alteration there.

Juan Vargues: Then on distribution, we see a slightly weakening demand during the coming quarters, which I would like to point out, we don't see any drama, but we see that our customers and our customers' customers are having a more cautious approach to build up inventories for 2024 in comparison to what they did for 2023. We expect this to be a temporary effect and nothing else. At the same time, we expect to see continuous margin improvements on the Igloo side in the coming quarters.

Juan Vargues: Obviously, we are still not happy with the performance in EMEA and the Americas. We will continue to drive cost savings and price management to improve the performance of those businesses. We are totally committed to achieving the net debt or the leverage or a target of 2.5 as we have some financial targets. At the same time, we need to show to be very agile and to adapt to the market conditions. We believe in an underlying growth market. We see and hear every single day that all the camping grounds are already fully booked for the entire summer, both in the US and Europe, and that's good news for our business. We're still very positive about the long-term trends for Dometic.

Juan Vargues: We'll continue to drive our strategic agenda as we have been doing for the last five years. With that said I would like to thank you all for your attention and open the Q&A session.

Operator: If you wish to ask a question, please dial star five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial star five again on your telephone keypad. Please mute your line when you have asked your question, and please limit yourself to only two questions. The next question comes from Daniel Schmidt from Danske Bank. Please go ahead.

Daniel Schmidt: Good morning, Juan and Stefan. I hope you can hear me. A couple of questions from me. Starting with the outlook, maybe as you just run through, Juan, I was just thinking about the OEM business, which I guess a lot of people are puzzled about how that will turn out in the second half of this year into '24. Of course, you reiterate that you're expecting a stabilization of RV in the Americas. You also say the continued strong performance of CPV. That means, of course, they're expecting Marine OEM and RV Europe and APAC to come down. Starting with Europe, a lot of other or some other manufacturers are saying that they continue to see a strong market in European RV, mostly, I guess on the back of the fact that we have been under-producing a lot last year and now supply is improving on chassis and production are coming up and backlogs seem to be fairly intact. Are you seeing anything different there compared to other more optimistic people?

Stefan Fristedt: I think that you have two different realities. You have manufacturing reality and then you have dealer reality. We see registrations coming down in Europe, and of course, it's just a question of time. What manufacturers are doing is filling the pipeline. Then, for me, it is kind of mission impossible to tell you what we are going to see the market coming down in November or is it going to be in February? What is crystal clear is that if the consumer sentiment doesn't change to the positive, and that will have very much to do with inflation rates and interest rates, I have difficulty believing that we are not going to see a slowdown in Europe or APAC as we have seen in America. What is different is obviously the magnitude of the drop.

Stefan Fristedt: As we know, the American market is always reacting much faster and much more dramatically both on the way down and the way up. We are not expecting what we have seen in the Americas, but are we expecting a sooner or later slowdown? Well, unless the consumer sentiment doesn't change, we will.

Daniel Schmidt: Yes, it sounds reasonable. Have you seen anything in terms of cancellations of backlogs in Europe?

Stefan Fristedt: No. We said we are talking about a gradual, so we don't see you look at our numbers as I commented in Q2, we have very nice growth both in EMEA and APAC on the OEM side.

Juan Vargues: I think it's also worthwhile mentioning, Daniel, that the financing is playing a somewhat smaller role in Europe compared to the Americas.

Daniel Schmidt: Yes. That's fine. Then coming to Marine then which, of course, is possibly another shoe to drop, but we know from history that volatility has been lower than if you compare the US on this matter. What are you seeing there in terms of backlogs that you've talked about before, that the mix is moving in your favor in terms of bigger boats? Also, we talked about the hydraulic shift and the electronic shift. Do you feel that that shift combined with your mix is going to be something that will continue to counterweight a downturn in that market or is it more pronounced now?

Juan Vargues: I think it will mitigate, but of course, it will not eliminate. If you look at the market, retail has been down now for about one year. We see that boat manufacturing if you look at smaller boats, has been down quite heavily now for one year. Manufacturing has been coming down, but then you have a difference between smaller boats and bigger boats. If you look at both bigger engines and bigger boats, it has been growing until now. Even when you're looking at the May numbers, bigger boats are still up, but not at the same place as they used to be for the first four months of this year. If we look at the smaller boats, they are still in May like year to date about 20 percent down. There you have the difference.

Juan Vargues: Then at the same time, we see that the technology shift, I think I commented before, is two percentage points up this year versus last year. Transformation keeps taking place. I think on the marine market, it's a little bit the same as your question in reference to EMEA. I think is going to be very much about interest rates and consumer sentiment. It is clear that retail has been down. It is clear that manufacturing has been down for smaller boats.

Juan Vargues: What we see is that the growth on the bigger boats is not the same as it used to be at the beginning of the year. That's why obviously we have, I would say, what we consider to be a realistic approach and expect that we will see an iteration on the OEM side. Having said that, we also see that on the aftermarket side, we are already slightly positive in Q2. We are above zero for Marine aftermarket, which is telling you, again, that everything is going to be about timing like we have been commenting now for three, four quarters.

Juan Vargues: On one side, we have geographical differences. On the other side, we have the mix, and we see some of these areas coming down gradually at the same time as we see some of these areas improving gradually.

Daniel Schmidt: You are, as you mentioned, leaning on the word gradually. You're not seeing any sort of big shift in OEM as we go into the second half of this year for the worse.

Juan Vargues: Not until now. We have not seen anything in our numbers. We don't have any cancellations and you mentioned that yourself. When listening to our European customers, they are still very bullish. Then, of course, we need to remember that this market is always bullish until it starts dropping. That's why we don't see anything happening in the coming 14 days, but we see, again, that the logic is that if interest rates don't start coming down, we will have an effect sooner or later.

Daniel Schmidt: Yes. From an earnings perspective, if you get the aftermarket Marine with you, you will be able to neutralize some of that decline in the OEM business, simply.

Juan Vargues: Correct. Keep in mind that we are really making a major readjustment like many other companies, obviously, coming from very, very heavy growth in 2021, and all of a sudden the market stops in a number of areas. When you have such a situation, you get a lot of inefficiencies. We are talking about inventories in Europe, but we are also talking about inventories. We are talking about warehouses. We have extra warehouses to take care of the inventories that we built up over 18 months. We are talking about inefficiencies. The answer is yes. With the margin difference that we have between service and aftermarket and OEM, we expect to see improvements moving forward.

Juan Vargues: I think that you can see that already if you compare Q4 last year, Q1 this year, and Q2 this year. You have seen that our EBITDA margin, the gap between the last period and this period is coming down quarter-by-quarter.

Daniel Schmidt: Good. Moving on maybe to the cost side bit. You mentioned that you've realized 425 million in the cost program. There's another 175 in savings to go. Do you still think it's realistic to realize those savings in the coming three quarters, or will it take longer?

Stefan Fristedt: No, I think we are still there. It's always impossible to tell you it's going to happen in week 27 or next year, but it will be about. Absolutely.

Juan Vargues: Of course, the volume is, of course, also going to play a role here.

Stefan Fristedt: That's an important factor.

Daniel Schmidt: Yes. Maybe more on the topic of costs, clearly, you've been hurting from high logistical costs in May and also this move of production from Germany to Hungary. Now that is done and dusted. Of course, it will take some time to get efficiency up in Hungary and be back to square one basically. Do you see logistical costs normalizing and efficiencies in production in Germany normalizing by the end of Q3 or will it take longer?

Stefan Fristedt: My experience is that it will take the rest of the remainder of the year. That's based on my experience and what I have seen during all these factory moves during my career. It takes about six months.

Juan Vargues: We will still see gradual improvements over the coming year.

Stefan Fristedt: Both in terms of warehousing cost and in terms of efficiency in Hungary.

Juan Vargues: Yes.

Stefan Fristedt: Okay, Daniel?

Daniel Schmidt: Yes, thank you.

Juan Vargues: Thank you.

Operator: The next question comes from Gustav Hagéus from SEB. Please go ahead.

Gustav Hagéus: Thank you, Operator. A few follow-ups from my side just to be clear on the excess warehouse costs you had from your inventory, mainly, as I understood it, located near the ports. How far along are you from thinking those costs down in Q2? Are you nearly there, or is there more to come in Q3?

Juan Vargues: I would say the cost is around 55 million in the quarter. It will not go down to zero by the end of the year, but it will reduce.

Gustav Hagéus: Okay. That's helpful. If you could remind us of the savings target, you had for the Siegen factory closure and the ramp-up? What's the target for H2, and where do you think that can be realized? Just to be clear.

Stefan Fristedt: We don't exactly comment only on that. We are commenting on the total program. As we mentioned before, we are on a pace now of 425 and are a little bit dependent on the volumes, but the ambition is to be at 600 when we move into 2024.

Juan Vargues: It's obviously quite an important part of that.

Stefan Fristedt: We are moving to Hungary. Yes, it's quite heavy.

Gustav Hagéus: Yes. On the gearing, then, it was kept lower than at least we had anticipated here. As you point out, the FX part plays a negative point to it, but also, I guess, the EBITDA is possibly impacted by FX over time. The way you see the trajectory now with your outlook for the market and so forth, when do you see you can come back to a situation where you would potentially look at inorganic opportunities? Second, to that question, I note that, or I didn't hear you mention that you're looking for divestments, something that I think you've been alluding to previously, so a little bit of color on that would be helpful. Thanks.

Juan Vargues: If we start with the leverage, the target is to be around 2.5, or are we going to be able to close the full gap here until the end of the year? That's not completely realistic, but we are certainly going to take a notable step toward that. Of course, as we are getting closer to our overall target on this, then obviously we can start to have discussions about inorganic opportunities as well as you. As you know, many of these smaller to medium-sized bolt-on acquisition doesn't generate too much leverage here, but it's still too early to talk about that. We are step by step moving gradually in that in that direction. As you see, if it wouldn't have been for the weakening Swedish krona, we would most likely have been below three already now in Q2.

Stefan Fristedt: You talk a little bit, generally speaking, about the market conditions. We are working on one side. We haven't stopped any dialogue in terms of acquisitions, but we are holding up. The reason for that is obviously that as a seller, you want to maximize the price. As a buyer, just now, you are looking at the devaluations coming down, so everybody is talking to everybody. In terms of divestment, it's exactly the same. We have a number of projects that we are working on at the same time as we are just now not getting the price that we expected. There we are holding up. Both on the acquisition acquisitive side and on the divesting side, we keep working, on both sides.

Stefan Fristedt: Then, of course, I do believe that in terms of acquisitions, on one side you have leverage. I also believe that you need to consider, at least we consider, the sentiment of the markets. I believe that we need to move from this negative sentiment to a slightly more positive sentiment before you can start pushing.

Gustav Hagéus: Finally, for me, if we can get some more color on the aftermarket side. Perhaps, do you have a view on sell-out of your products or a rough view across segments? If not, do you have a view of the utilization of RV and marine fleets? Is that growing this year?

Stefan Fristedt: Yes. What we have as media information is that camping grounds are extremely heavy. Some countries are reporting that even more occupied than they were one year ago. I don't know if it has to do with inflation that people are spending more time domestically, but it is clear that the underlying camping market is growing, which is positive for us. With that, that means as well that you are moving, that the RV is moving somewhere, which means also spares. If you talk to dealers, they are also expecting higher consumption. Having said that, they have been sitting and are still sitting on inventories, but the inventories are coming down stepwise, and that's what we see in our numbers.

Stefan Fristedt: As I commented before, Marine and APAC are already there. They are slightly positive in comparison to the situation one year ago where the Americas and EMEA are still quite a bit down in comparison to last year. We have seen a major improvement even in the Americas and EMEA in comparison to what we are coming from in the past quarters.

Juan Vargues: Combined with the fact that the fleet as such has been growing over the last couple of years, obviously, they are starting to move into the aftermarket wind.

Stefan Fristedt: Historically, what we have seen is normally that when people are not upgrading, meaning moving from one RV to another, they are spending more time on maintenance and servicing the equipment that they already own. That has been really what has been driving the aftermarket business historically. If you talk to dealers, they are expecting the same. The difference in this occasion is that they have been sitting on inventories.

Gustav Hagéus: That's great. Thanks for taking those questions.

Stefan Fristedt: You're welcome.

Operator: The next question comes from Anton Brink from Antorus Capital Management. Please go ahead.

Anton Brink: Good morning, gentlemen. I will have one question to which you partly alluded before as well. I was wondering, looking, for example, at the earnings report from Winnebago in the United States. They showed a very steep decline in the Marine backlog. What are you thinking of the sustainability of obviously very strong earnings currently going into both H2 and 24?

Juan Vargues: Our backlog is lower than the backlog we had one year ago, but it's not dramatically down on the Marine side. What we see, as we have commented a number of times, is that we have a technology shift that is supporting in comparison to Winnebago. Then on top of that, we have the aftermarket, which is showing even higher margins than the OEM markets. As we are commenting, we are expecting a gradual deterioration on the OEM side, but we are also expecting a gradual improvement on the service and aftermarket side, and the balance is positive. Then if we talk out of all our experience on the Marine side, is that the Marine side is not dropping by far in the same way as the RV side. You go back to those 18 and 19. That was the latest, so to say, a slowdown that we saw. The worst quarter that we had altogether for Marine ended up at minus ten or 11 percent. Those are the historical facts that we can comment on.

Anton Brink: In such a situation, would then, let's say, your EBITA development be relatively flattish, let's say, at max 10 percent down?

Stefan Fristedt: We believe that EBITA margin-wise, normally what we have is a positive balance since our margins are so much higher on service than they are on the OEM side. Again, it depends, obviously, on exactly how much it drops. We believe that we have a pretty flexible setup in the US and that we are acting very fast as well. If we look at our numbers today in terms of mining in comparison to growth, we have a positive balance.

Anton Brink: Clear. Thank you.

Stefan Fristedt: You are welcome.

Operator: The next question comes from Rizk Maidi from Jefferies. Please go ahead.

Rizk Maidi: Good morning, gentlemen. I'll start with one on the service and aftermarket. How do you feel about the new season? Were you surprised that Asia-

Pac was up? Also, given the sequential improvement we see in the Americas, what do you think these two regions will get to a positive development? I'll start here.

Stefan Fristedt: I cannot tell you exactly which week or month, but we have seen a very strong improvement from Q1 to Q2. Again, our expectation should be that we should be at the same level as last year at the end of the year. Then is still to be seen, but that's our expectation.

Rizk Maidi: Okay. Secondly, Juan, can you just comment on your order intake development and perhaps you could just comment on this double-digit growth that you've seen on the OEM business in Europe and in Japan? Was that a surprise to you?

Juan Vargues: The RV OEM is not double-digit in Europe, the CPV OEM is but is not far from being double-digit. APAC, on the contrary, is double-digit. We still see orders have been pretty good, but again, we cannot deny the fact that we see Greta coming down. For us, it's much more a question of time, as some of your colleagues raised the question before. It is clear that the industry has been suffering from difficulties in delivering to retail. Now what is taking place is that they are feeling the retail pipeline. At the end of the day, what is determining is consumer demand, and that will be impacted by interest rates. We believe it's just a question of time. So far, so good, and that's why we are showing the numbers. The same is valid for Marine, so far, so good.

Stefan Fristedt: It's consistent with what we have communicated before.

Juan Vargues: Yes. If you look at what we have been reporting in reality for the last three, four quarters, it has been a little bit of the same. America is coming first. Then unless interest rates don't change, we are going to see a gradual deterioration in the OEM businesses, at the same time as we will also see a recovery in the service and aftermarket. We have quite a positive balance between service and aftermarket and OEM businesses in terms of margins.

Rizk Maidi: Okay. I understood. Then perhaps just on distribution, if you could just help me understand that cycle. It feels like you're still looking for some weakness there over the coming quarters. How should I compare that cycle to the service and aftermarket cycle? Why is a bit of a lag there or a discrepancy?

Stefan Fristedt: If we look at distribution in reality, distribution for us just now is very much about Igloo if you look at Global, it has been extremely stable. Not even before the acquisition of Igloo, we were looking at the numbers back to 2006, and we could never see any drop whatsoever. You could have some punctuality, slowed down for one quarter, two quarters, and then back again. Then what we see and what we hear is that you have two different cycles. You have sporting goods. The sporting goods business was earlier in adjusting their inventories. We perceived that as already done. At the same time as we perceived that mass merchandising built up inventories for 2023, and they have been kind of consuming these inventories, but we hear that they are a little bit more cautious about building up inventories at the same level for 2024.

Stefan Fristedt: We don't expect drama for the coming two years, but we expect a punctual adjustment in comparison to what we saw in Q3 and Q4 last year. Keep in mind that we will start building up inventories for the season 2024 in the coming weeks. We now enter the 2024 season. You have, again, two different situations with sporting goods and mass merchandising. Sporting goods seem to have adjusted already while mass merchandising is adjusting just now in comparison to the levels in 2023.

Rizk Maidi: That's very helpful. Thank you.

Stefan Fristedt: You are welcome.

Rikard Tunedal: I'll jump in there with some questions on the Web. You still have many inventories on the balance sheet despite the release. Can you quantify the optimal level of inventories, and when do you expect to be at the working capital ratio of 20 percent?

Stefan Fristedt: We have been commenting on this before. If we take inventory specifically, we think the day we are approaching 100 days, we can start to talk about that. We are somewhere in the neighborhood of being good. As we have also said before, it will take into 2024 until we have been reaching levels around that. We're still going to see a meaningful reduction this year. For the coming quarters, I am expecting a continuous, strong cash flow.

Rikard Tunedal: Good. Another one around Igloo. What's the potential for Igloo in Europe and other regions and the risk of cannibalization towards Mobicool?

Stefan Fristedt: Now we don't see any cannibalization. In reality, it is the other way around. On the one side, Domestic has the opportunity through Igloo to start migrating the market from passive cooling to active cooling, where we have higher average prices and margins. If you look at the European region, there has never been a cooler quality market. That's what we believe we will be able to create. Of course, as Mobicool, we believe that Igloo will do a much better job driving our second brand in terms of growth and profitability than Dometic has been doing.

Juan Vargues: For the simple reason that Dometic employees want to sell Dometic brands. We feel that Mobicool as a brand has been a stepchild treated. Now we have an organization that is used to dealing with those kinds of customers and those kinds of products. We expect growth, so we don't expect cannibalization. Keep in mind that Mobicool becomes Igloo. Mobicool disappears as such, so we're obviously expecting to keep those volumes and to grow those volumes at higher margins at the same time as we are implementing the quality passive coolers that we never had as a Mobicool brand.

Rikard Tunedal: Thank you. The final one here, given the strong inventory reduction in recent quarters, must be a significant under-absorption in 2022 and 2023 in manufacturing. Is it possible to quantify this compared to normal levels?

Juan Vargues: Of course, we have under-absorption, but keep in mind that a lot of the inventory reduction is also coming from trading products. If we are talking about tents, for instance, we are not manufacturing tents. I would say that a decent part of our total sales is coming from traded products. It's nothing that we manufacture. That has no effect on our factories. In our factories, we are much faster at reacting, obviously.

Stefan Fristedt: I would also say that we have been transforming our operational structure over the last couple of years. We have been closing down a number of factories. Now we are closing the final ones. We have been adjusting our footprint, making it more able to react to changes in volume. We have been outsourcing more, et cetera. That is exactly in line with what we have said, and that's helpful in this situation that we are seeing now.

Juan Vargues: Just to give you a couple of factors. On one side, we have reduced the level of vertical integration that we had in-house a few years ago. Meaning that when we are moving from one country to another country, we are not just moving one to one. We are trying to question what we should do ourselves and what we should outsource. That's one parameter. The other parameter is that this management in the company, the level of temporary workers was about 10 percent. The level of temporary workers today in our factories is slightly above 20 percent. That gives us additional flexibility to react very, very fast. The profile of the business has changed. Then, as Stefan commented before, the number of factories we have today is 20 percent fewer than we had five years ago.

Rikard Tunedal: Back to the operator for the final question.

Operator: The next question comes from Douglas Lindahl from DNB Markets. Please go ahead.

Douglas Lindahl: Hello, gentlemen. Thanks for taking my questions. Congratulations to strong results and thanks for answering all the other questions. My question is about your Igloo reservations on the balance sheet. Can you hear me?

Juan Vargues: Yes, we can. Good morning.

Douglas Lindahl: Okay, good. Good morning. It seems like, looking at the balance sheet, your Igloo reservations, or the earnout reservations in total, let's say, seems to be pretty unchanged quarter over quarter considering that you pay these 400 million in the quarter. How should we think about that? Also, an update on the lawsuits with Igloo would be super useful.

Stefan Fristedt: Now, you should think about that. We have been paying out 470 million. We have other things moving in our current liabilities. It's not only earnout related. There you have currency effects, and you also have movements in other positions in there. On the Igloo side, we haven't changed anything on the reservation there. I don't want to exactly comment on how much it is, but no change on that. Then as I said earlier, you should expect that it is coming a bit above 100 million Swedish kronor additional payments this year, and the majority of them will come in Q3. Then there are still some remaining payments, still talking about non-Igloo related for 2024 and that's a little bit less than 200 million expected to be a little bit less than 1 million, but that is for 2024.

Juan Vargues: On the claim?

Stefan Fristedt: On the claim, the process is basically ongoing. There is no news to report in this quarter. We are expecting it to continue. Most likely building on previous experience, it could very well take into next year before we have any conclusions on this. As soon as we have any news, we will, of course, include that in our report.

Douglas Lindahl: Okay. Thank you. Just to clarify, it seems any sort of Igloo-related earnouts for this year is not included in your expectations, basically?

Stefan Fristedt: No.

Douglas Lindahl: Okay. Thanks.

Stefan Fristedt: As we say, perhaps something that we have not commented on, but we have in the report, you can read in the report is that we have filed a counterclaim against the former owners of Igloo for the fact that they didn't respect the terms that we have in agreement. Whenever you have a disagreement, you need to follow a process and that process was never followed by the sellers. They have a claim filed. Again, this is a long process.

Douglas Lindahl: Okay. Thank you.

Juan Vargues: You are welcome.

Operator: That was the last question at this time, so I hand the conference back to the speakers for any closing comments.

Juan Vargues: Thanks so much, all of you for your attention and for your interest in Dometic. We feel good about presenting a good report and we will continue to work exactly in the same way, acting very, very fast on changes in the market at the same time as we continue to follow our strategic agenda. With that said, thank you very much, and I wish you all a great summer. Thank you. Goodbye.